

# Committee on Resources

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## Witness Testimony

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Statement of  
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**Before the Committee on Resources**  
**U.S. House of Representatives**  
**H.R. 856**  
**The United States-Puerto Rico Political Status Act**  
**San Juan, Puerto Rico**  
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Good morning, buenos días, Mr. Chairman and members of the Committee. I am Eduardo Bhatia-Gautier, a Popular Democratic Party member of the Senate of the Commonwealth of Puerto Rico. It is my pleasure to appear before you to discuss ways in which we can enhance and strengthen the quality of life of the people of Puerto Rico, and further the economic development of the Island within the context of today's increasingly interdependent and interrelated world economy.

Let me start my remarks by stating in no unclear terms that my only concern in this process is the well being of the people of Puerto Rico. In fact, I care more about Don Juan Alejandro and Doña Lucía Chevres, who live in Barrio Guadiana in Naranjito, about Virginia Santos and her four children, from Cidra, about Mrs. Paulita Colón from Bayamón, and about so many others like them, than about attempting to conform the collective lives of Puerto Ricans to the wishes and aspirations of people who do not even live in Puerto Rico. Theirs is a life of constant improvement and success under commonwealth status. I have little respect for empty legalistic forms and terms which mean nothing to real people who must struggle daily to make ends meet.

Thus, I am here this morning convinced that at the end of the day it is more important to have a job and a robust economy, to have economic independence and a productive society, than to live day by day, in economic turmoil, with no hope for future generations. I truly believe that any status for the future of Puerto Rico must be crafted solely upon the premise that our quality of life must be improved. Any other consideration would constitute a betrayal of our collective duties and loyalties to our peoples as elected officials in a democracy.

Mr. Chairman, the international economy of the 21st century will be more competitive and diversified. Great new challenges and opportunities are emerging for all the communities of the world, including Puerto Rico. Unfortunately, we are not taking advantage of these new opportunities, which require a unified will and a real commitment to progress. Instead, we are being asked, against our wishes, to participate in a Congressionally mandated plebiscite process, as stated in H.R. 856, which fundamentally pushes Puerto Rico away from the advantages of this new world order.

At this juncture, it is fundamental to ask the most basic question which, for some unknown reason, this committee has somehow eluded over the last two years. That is, under which political relationship with the United States is Puerto Rico better positioned to compete and succeed in the emerging world of the 21st century? Is statehood, indeed, a feasible alternative?

The flexibility and dynamism of commonwealth status has given Puerto Rico the tools to achieve dramatic economic and social progress. Our association to the United States has given us stability and access to the largest market in the world. Our fiscal autonomy has permitted us to attract industry to the island through low effective tax rates. This was the pillar of Operation Bootstrap, our investment promotion strategy during the 1950's, and continues to be central to our economic development today. In fact, even under the current pro-statehood administration in Puerto Rico, the economic tools that are available only under commonwealth are the backbone of Puerto Rico's productive sector.

The results have been truly staggering. Puerto Rico has set an example of how a small, poor, agrarian, and densely populated island, with limited exploitable natural resources can emerge as a bustling and industrious society. Once considered a "stricken land", the poorest of the poor countries in the hemisphere, Puerto Rico today enjoys the highest standard of living in Latin America. Even though Puerto Rico's present income per capita of \$7,500 is less than 1/3 of the U.S. average and about 1/2 that of Mississippi, the poorest state, it nonetheless is twenty-two times greater than in 1950, when it was only \$342. Our exports have boomed from \$235 million in 1950 to \$22,900 million in 1996. In terms of imports, Puerto Rico purchases over \$12 billion annually from the United States, ranking among the top 10 world customers. In 1990, --the most recent year for which I have data-- our purchases were greater than the combined purchases of Brazil, Argentina, Chile, Colombia and Peru. Puerto Rico has a population of 3.6 million people, while those five South American countries have a total population of 260 million people. Perhaps most impressive of all - in a region plagued by political instability, all of these changes have occurred without social unrest and under a strong democratic regime.

The *productive* economic vitality enjoyed by Puerto Rico under Commonwealth is impossible under statehood. Statehood requires the imposition of federal income taxes, individual and corporate, which would destroy Puerto Rico's continued economic prosperity. Manufacturing presently accounts for 44.5% of Puerto Rico's GNP, and is critically *contingent* upon the fiscal autonomy that Puerto Rico would lose under statehood. Close to 300,000 direct and indirect jobs are *attributable* to Puerto Rico's fiscal autonomy. This is one third of Puerto Rico's total labor force! Every single study conducted on this issue has established that the elimination of Puerto Rico's fiscal autonomy would entail massive capital flight and job loss. Statehood would destroy the most productive sectors of our economy, precipitating us into an economic catastrophe of unimaginable proportions, shattering the social solidarity and threatening the stability of our prosperous society. This spiral of decline would destroy our self-sufficiency, demanding ever increasing federal outlays and creating a state of true and inescapable dependency.

The federal government's own studies of the cost of statehood to the U.S. Treasury and Puerto Rico confirm this conclusion. In the most recent study to date, the Congressional Budget Office estimated in April of 1990 that statehood would cost the U.S. government over \$9 billion in additional federal spending in the first four years, much of it to compensate for the loss of jobs in the productive sector. The study also concluded that under statehood, Puerto Rico would suffer a permanent drop in GNP of 10-15% by the year 2000, accompanied by a loss of 50-100,000 private sector jobs.

Another serious study on this subject was conducted by KPMG Peat Marwick Policy Economics Group in

February 1990, and had two major findings:

First, that statehood would cripple Puerto Rico's ability to attract and retain manufacturing investment, as it would require the elimination of Puerto Rico's fiscal autonomy and the imposition of full federal taxation in the island, thus destroying the backbone of Puerto Rico's productive sector. According to the study, statehood would result in the massive relocation of U.S. and foreign owned manufacturing operations to other low-tax jurisdictions in the Caribbean, Europe, or the Pacific rim, with dramatic negative effects on both employment and wages in Puerto Rico. Considering the direct and first order indirect effects, the study finds that statehood would cause a loss of between 80,000 and 145,000 jobs, and between \$1.4 and \$2.6 billion in wages. This magnitude of job loss would climb the unemployment rate from the current 12.5 percent to upwards of 30 percent.

Second, that under statehood, federal income taxes would be layered on an already high level of Puerto Rican taxes, without any reduction in the need for services from the government of Puerto Rico. The marginal tax rate for Puerto Rico residents in the \$24-35,000 income bracket would jump from the then present 20.2 percent to 34.3 percent under statehood, with the combination of Puerto Rico and federal taxes. The average marginal tax rate would have increased from 25.8 percent to 40.4 percent.

Thus, to put the economic consequences of statehood in perspective, if Puerto Rico chose to lower tax rates to U.S. levels as it would have to under statehood, the government would have to lay-off about 90,000 public employees, or two out of five government employees. This would further exacerbate the job loss problem, raising the rate of unemployment to more than 35 percent. The question would remain, how many public school teachers would have to be laid off to pay for statehood? How many police officers? Does this make any sense to any of you?

The world is gearing today to face the challenges of a new millenium, and so should Puerto Rico. In a recent fact finding mission to the Island, I had the privilege of exchanging views with Senators Murkowski, Akaka and Kyle, from the Senate Energy Committee. Their concern, as should be this Committee's, was how to best craft a policy for Puerto Rico in light of the emerging challenges of the 21st century and the end of welfare as it long existed. Under the new rules, the creation of jobs at the state level is fundamental. We can all agree on that. Therefore, the analysis on any congressional action should start, as in the Senate, by considering the future needs of Puerto Ricans first. And let there be no doubt, our fiscal autonomy and the strength of our people under commonwealth status are the key to progress for Puerto Rico.

In conclusion, we in Puerto Rico have come a long way to liberate our people from the chains of poverty and misery. We are now succesfully competing with the great economic powers, with skilled workers and attractive incentives that generate jobs. We are in the move. Let us join efforts and energies in building a better Puerto Rico, a prosperous society and a land of true freedom, where our children will be anxious to seize the opportunities that await for them. Let us put people's needs first. Let us use this opportunity not to destroy commonwealth, but to strengthen it; not to divide our people, but to unite them; not to stop progress, but to accelerate it. Only then would we be true to our logical mission as public servants who care for the common good of the people of Puerto Rico. Thank you.

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